

# MAKE IT YOUR BUSINESS

## TUCSON TAX & LICENSE ASSISTANCE

### SALES TAX ON PERSONAL PROPERTY RENTALS: THE BASICS

This publication contains general information about business privilege (sales) tax on renting, leasing, or licensing of tangible personal property. For complete details, refer to the City of Tucson Business Privilege Tax Ordinance and Official Rules and Regulations, AKA Tucson Tax Code. In cases of inconsistency or omission, the language of the Tucson Tax Code will prevail.

**NOTICE:** The terms lease, license for use, and rental are used interchangeably in this brochure. If you see one referred to, you should assume that all three apply.

**WHO MUST PAY?** If you are in the business of leasing, licensing for use or renting tangible personal property including that which is semi-permanently or permanently installed within the city, you owe a 2% rental tax. In Tucson the lessor owes the sales tax to the City of Tucson unless the transactions are exempt from tax. This is true whether or not the lessor added sales tax to the price of the items rented.

Examples of taxable rental items include:

- office equipment
- construction equipment
- data processing equipment
- restaurant equipment
- appliances
- televisions and radios
- tuxedos and other clothing
- linens and towels
- cars, trucks, boats, planes, etc.
- canned computer software
- videotapes, movies, etc., for personal use

**HOW DO I PAY RENTAL SALES TAX?** You must get a Business Privilege (sales) Tax License from the License Section. Call 791-4566 for more details or visit us at 255 W. Alameda, first floor, west wing. Report sales tax on the rental tax return that you will receive after you obtain a Business Privilege License. Note: State taxes are reported separately.

#### SPECIAL SITUATIONS

**1. Rental for Rerental:** When you rent an item to a business that plans to rerent the same item, you do not owe tax on that income. However, you must have clear and complete records of these rerentals. Your records must separately show figures for nontaxable and taxable rental income. For each "rent for rerent", you must record the property description, the lessee's name and address, their city and state sales tax license numbers and obtain a signed statement from your lessee saying that the goods will be rerented in the ordinary course of business. Remember, without complete records, all

your income will be taxed. You must be assured that the lessee is in the business of renting this property to their customers in the ordinary course of their business. An Occupational License is required.

**2. Long Term Motor Vehicle Leases:** A motor vehicle lease for at least twenty-four months is considered to occur at the motor vehicle dealership location, rather than the lessor's business location. If the dealership is located in Tucson or any other city that charges sales tax on the transaction, then that city receives the tax for this lease. This will be true even if the lessor's interest in the lease and its proceeds are sold, transferred or otherwise assigned to a lease financing institution.

**3. Is it rental or construction contracting?** Rental of earth moving equipment with an operator is considered construction contracting activity. Rental of other tangible personal property (with or without an operator) or rental of earth moving equipment without an operator is considered rental of tangible personal property.

**4. Equipment rental with operator:** If charges for an operator are separately charged to the lessee and separately maintained in your books and records, this charge is not taxable.

**5. Membership fees:** Membership, admission, or other fees charged by any rental club or limited access lessor are considered part of taxable gross income.

**6. Semi-permanently or permanently installed:** All rental property semi-permanently or permanently installed in Tucson is taxed by the City of Tucson unless the transactions are exempt from tax.

- a. The term "semi-permanently or permanently installed" means that the item is expected to have a permanent location at the site where it is installed, as under a long term lease agreement.
- b. An item of tangible personal property is deemed permanently installed if its installation requires alterations to the premises.
- c. Examples of "semi-permanently or permanently installed tangible personal property" include but are not limited to computers, duplicating machines, built in furniture, major appliances, and store fixtures.
- d. A lease for more than one hundred eighty days specifying that the item remain located within the same city for that period is sufficient evidence that the item is semi-permanently or permanently installed in that city. However, this does not apply to mobile transportation equipment or one of the other types of portable equipment or property described in (e) below.

e. The term does not include mobile transportation equipment or tangible personal property designed for regular use at different locations, as under numerous short term rental, lease or license agreements, whether or not such property is in fact so used.

(1) For example, use of a mobile crane, trencher, automobile or other similar equipment is considered a rental, lease, or license transaction subject to taxation only by the city or town in which such business office of the lessor is based.

(2) Other similar examples include but are not limited to camping equipment, contracting equipment, chainsaw, forklift, household items, invalid needs, janitorial equipment, reducing equipment, furniture of portable design, trucks or trailers, tools, towbars, sump pumps, and arc welders.

**7. Charges Added to Rent:** Charges for items such as mileage and collision damage waiver are taxable as part of your rental income. This is true even though the charges may be billed separately from the rental charge. The car rental surcharge imposed by A.R.S. Section 48-4234 shall be excluded from gross income.

**8. Renting to Contractors or Non-profit Organizations:** Rentals of equipment to contractors and most non-profit organizations are subject to tax. (See exemptions.)

**9. Lease Purchase:** The rental income from leasing an item that has a purchase option is taxed under personal property rentals until the item is purchased. Income from the eventual sale of the item is then taxed as a retail sale. When a lease purchase option is exercised, the tax is due the Arizona city from which the transaction occurs. If you do not have a location within Arizona, the tax due is based on the customer's location, therefore, only in-city customers should be subject to the city's retail business privilege tax.

## **Exemptions and Deductions**

1. Items rented to qualifying hospitals, qualifying community health centers, or qualifying health care organizations. Obtain a copy of their current year state or city letter of exemption. Rental of items to non-profit organizations that engage in training, job placement or rehabilitation programs, or testing for mentally or physically handicapped people are exempt if the property is used exclusively for those activities.

2. The rental of prosthetics.

3. Rental of films, tapes or slides to theaters, television stations, and radio stations.

4. Rental of certain machinery, equipment and related items used in manufacturing, processing, job printing, mining, by telephone and telegraph companies, for electric power production and transmission, pipelines, airlines, railroads, oil and gas industries, and in cleanrooms.

5. Rental of certain new agricultural equipment.

6. Rental for rental.

7. Rental of tangible personal property that is semi-permanently or permanently installed within another city that levies an equivalent excise tax on the transaction.

8. Rental of mining and metallurgical supplies. This does not include janitorial equipment or supplies, office furniture, equipment or supplies, or motor vehicles licensed for use upon the highways of Arizona.

9. Separately billed charges for delivery and installation. An Occupational License will be required.

10. Repair or maintenance charges. These charges should be reported under the retail activity.

11. The gross income from coin-operated washing, drying and dry cleaning machines or from coin-operated car wash machines. This exemption shall not apply to suppliers or distributors of same. An Occupational License will be required.

12. Sale of warranty, maintenance, or service contracts with a rental, lease or license contract is exempt.

## **FOR INFORMATION CALL, WRITE, OR VISIT:**

### **The Audit Section about tax questions.**

City of Tucson - Audit Division  
255 W. Alameda - Second Floor  
P.O. Box 27210  
Tucson, Arizona 85726-7210  
791-4681

### **The License Section about licensing.**

City of Tucson - License Section  
255 W. Alameda - First Floor  
P.O. Box 27210  
Tucson, Arizona 85726-7210  
791-4566

### **To purchase a copy of the tax code:**

The City of Tucson Business Privilege Tax Ordinance and Official Rules and Regulations is available from the City Clerk's office. The phone number is 791-4213. Call for current price and postage. There is a copy at the main library, governmental reference section, for review, 101 N. Stone, Third Floor. Call 791-4114 for current library hours.

Revised 01/08/99